

CLASSIFICATION CONFIDENTIAL
CENTRAL INTELLIGENCE AGENCY
INFORMATION FROM
FOREIGN DOCUMENTS OR RADIO BROADCASTS CD NO.

50X1-HUM

COUNTRY China
SUBJECT Economic - Capital, control
HOW PUBLISHED Daily newspaper
WHERE PUBLISHED Shanghai
DATE PUBLISHED 17 Apr 1950
LANGUAGE Chinese

DATE OF INFORMATION 1950

DATE DIST. 5 Jul 1950

NO. OF PAGES 5

SUPPLEMENT TO REPORT NO.

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SOURCE Chieh-fang Jih-pao.

CHINESE PEOPLE'S NATIONAL BANK TO CONTROL CURRENT CAPITAL

In its program of unification of national finance, the central government has made the People's Bank the central agency for concentration, control, and distribution. Under the new setup, this national bank will become the center of capital, clearings, and loans. This is something unknown to the old banking systems and is not to be found in the old literature of banking.

The subject may be treated under three main heads.

Current Capital Control

Current capital control is the concentration of all current capital in the national bank so that it becomes the reservoir of all current fluid capital and the point from which all disbursements are made.

In the light of experience in the Soviet Union, not only is the fluid capital of all government business and cooperatives to be concentrated in the national bank, but also private capital.

This is accomplished by: (1) the national bank disbursing all payrolls for factories and businesses, and collecting utility charges, rents, and taxes on behalf of the public, thus eliminating the necessity for direct exchanges of money among companies and individuals; (2) establishing savings-bank facilities to encourage the people to deposit their savings; (3) providing widespread insurance facilities e.g., travel insurance for all travelers, etc.

By these means all the current fluid capital of the entire society can be concentrated in the national bank and the bank will be able to establish a nation-wide network of collections and disbursements.

It may not be possible in the New China to carry out this policy completely at once, but important steps can and must be taken in this direction. We have an enormous nationally operated economy. This is an economy tending toward socialism, and socialistic theories can be applied in the national banking systems. Control of capital can be exercised first in government enterprises and then extended into other spheres.

- 1 - CONFIDENTIAL

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The Administration Council has already ordered the daily concentration of all current income of all government enterprises, the military, and the cooperatives in the national treasury, leaving not more than 3 days' operating capital on hand under ordinary conditions, and not more than 30 days' in distant places where the bank has no branch or representative. None of their funds may be placed with private banks, thus cutting off private banking enterprises from handling government funds. In a word, the plan is for all government collections and disbursements to go through the national bank.

Purpose of Capital Control

1. To prevent overissue of currency and to stabilize prices of commodities. The concentration of capital from the trade marts into the national bank and from the various local areas will enable the government to plan income and outgo wisely so that there will be no need of further currency issue.

The Northeast has furnished a good example of this in the stabilization of prices where commodity price advances of 600 percent in 1948 were reduced to 80 percent for 1949, after the introduction of capital control and issuance of public bonds in mid-1949.

2. It is an important method for expanding production. The important duties of the national bank are to stabilize currency and to expand production. This is to be done by capital control which will collect the small sums from all over the country into one great sum in the national bank. This sum can be disbursed under wise planning and careful investment into channels really useful in increasing production. Experience of the Soviet Union along this line bears this out. With capital control, all enterprises will have to present carefully worked out budgets and feasible production schedules with their requests for funds. There will be no loose ends. Then, if the budget is not properly administered the People's Bank can refuse the disbursements asked for, thus protecting the authorized operating funds.

3. Control of capital is the first step in instituting the system of settlements and loans. There is a close relationship between current capital, settlements, and loans; however, the latter two are conditioned upon capital control. When the fluid capital of all business has been concentrated in the bank, except for petty cash transactions, all transfers of capital can be made through the bank by book entries without any actual movement of capital. Much waste can thus be eliminated.

After the control of current business capital is achieved, the bank will have both supervisory and investigative responsibilities toward business and thus be acquainted with the existing conditions. When the matter of loans arises, their handling will be much simplified because of this knowledge. Capital control thus reconciles and unifies the requirements of the national economy.

Effecting Current Capital Control

The first step is the concentration of the capital of all government administrative agencies and publicly operated enterprises in the bank. Secondly there must be a plan for receipts and disbursements.

To this end, the Shanghai branch of the People's Bank has set up the First Business Department especially to handle collections and disbursements, production capital and transfers for all publicly operated, and joint private and public enterprises. This department has combined under its control the former Utilities Affairs Department, Industrial Affairs Department, and the accounts of the Bank of Communications.

- 2 -

CONFIDENTIAL

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50X1-HUM

Accounts are also being moved from the Bank of China to this department. Accounts of the various offices of the Municipal government are also being combined in the department. All government agencies, military offices, public schools, and combined public and private schools located in the city that have current capital collections and disbursements and transfers to make will all handle them through the public treasury department of the People's Bank. The cash collections, disbursements and transfers of all types of cooperatives that have official authorization shall be concentrated in the Cooperatives Savings Department of the bank. All local representatives of civil government agencies, military organizations, publicly operated enterprises, and cooperatives or temporary representatives of such may carry on their transactions through the facilities of the appropriate department of the bank.

When capital has been concentrated in the national bank the following steps may be taken.

1. According to the current capital control procedure, arrange with each unit whose currency is on deposit, an individual deposit limit.
2. Each unit should set up a daily receipts and disbursements report system and also a budget of receipts and disbursements for its current capital. The first plan has been in use by some units for some time, the second will have to be worked out by stages.
3. After obtaining control of capital, the national bank must set up a system of clearing accounts to minimize the movement of current capital. To this end, the People's Bank has instituted the checking account and book account methods of transfers. All publicly operated enterprises and public utilities that have accounts have been issued individual check books. These checks are primarily for the transfer of accounts, and cash will not be paid against them; nevertheless, they can circulate outside. For this reason, an account transfer notice system has been devised. It is being tried out first in the textile industry and then will be expanded to all patrons.
4. The currency control system must be tied in with the loan system. It requires the loan system to provide for the flow of capital, otherwise the production turnover needs of the patrons cannot be met, with resultant adverse effect on production; furthermore, the control system will not function smoothly. Consequently, the People's Bank has decided upon a loan system.
5. To advance the current capital control a step further, the bank must enter into contracts with the patrons to act as their collection and disbursement agent. It may begin with the businesses whose collections and disbursements are largest. In this way, the tempo of currency circulation may be stepped up, and the amount of cash to be paid out reduced. The Shanghai Branch of the People's Bank has established this practice with its patrons. Valuable experience in the fluid capital control system has been gained in the Soviet Union, and in the Northeast, where it has been in operation for a year. In Shanghai, all business firms have fully entered into the plan. The national bank will very soon be the center of capital, and before long, the system of current capital settlements and loans will also be centralized in the national bank.

What method shall be used to bring in both public and private capital?

The first step is to carry out the order of 7 April 1950 that publicly operated enterprises, government agencies, military organizations, and cooperatives shall, except for certain expressly permitted amounts, place all their fluid capital in the People's Bank or its designated agencies. To accomplish this purpose, various treasuries have been established simultaneously. In addition to the treasuries of the finance department, various publicly operated enterprise treasuries have been established, such as trade treasuries and railroad treasuries. Eventually, fuel industry treasuries and telegraph service treasuries, etc., will be introduced.

- 3 -

CONFIDENTIAL

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Under the capital control and treasury system, the cash in the hands of the national organizations will be reduced to a minimum. The remaining capital will be deposited in the central treasury, to be at the disposal of the finance committee. Capital will be allotted to government agencies according to the budget and plans. This becomes the bank's reserve.

Without question, with this system in operation, the funds in the national bank will be greatly increased. The experience of the Northeast has revealed that from April 1949 to the end of the year the funds in the Northeast Bank were quadrupled.

In addition to public funds, private capital is an important source of national bank funds; hence private capital must be vigorously organized simultaneously.

Previously, when the currency had not yet been stabilized the national bank introduced the practice of accepting deposits in kind. This was a potent means of absorbing private capital. Since mid-March of this year, commodity prices have been dropping slightly, and eventually they will be stabilized. Cash bank deposits will then rise. Since last month, the People's Bank has instituted both current and fixed savings deposit systems. This will attract private cash deposits.

If all private enterprises and individuals will follow the example of the government agencies and reduce their ready cash to a minimum, putting the rest in the bank, the result will be mutually beneficial to both the country and the individual or private enterprise.

Private banks may also participate vigorously in absorbing private capital. In this period of business stringency, private banks have had a tendency to hoard the funds in their hands and not make loans. The coordinated loan plan inaugurated by the national bank has greatly reduced the worry in this respect. The private banks can thus place more of their funds with the national bank and the loans made will be guaranteed by it. In this way, on the one hand, the national bank accomplishes its purpose of concentrating the national capital while, on the other, the private banks minimize their loan risks, a result beneficial to both sides. Private capitalism is thus led in the direction of national capitalism.

Eventually, this concentration of both public and private fluid capital in the national bank will make it the control center of fluid currency for government agencies, and eventually of their accounts, as the system of routing all transfers of capital among government agencies and enterprises through the national bank by means of book accounts and checks becomes universal.

The system of book transfers of funds reduces the circulation of new currency and raises the level of capital sufficiency.

The experience of the Northeast in this matter has demonstrated that under this system the amount of fund transfers through the Northeast Bank, by way of book accounts, is about six times the amount of cash transfers.

With balanced distribution of capital and goods, prices are stabilized and the capacity of the national bank to make loans is increased, which in turn encourages the increase of production.

This method of expanding transfer of funds by book accounts and reduction of cash transfers is worthy of emulation by private banks. Although private business and individuals have their cash deposits in various private banks, the exchange of certificates [letters] of credit tends to centralize capital. The tendency of private banks in this direction will no doubt increase.

- 4 -

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The unified control of finances and the concentration of taxes and income from government enterprises in the national bank, together with the appropriate distribution of goods by the government trading organizations, have already stabilized prices more than in the previous decade. This is clear evidence of the beneficial effect of the new unified financial policy.

The national bank should continue to organize the centralization of deposits until all the scattered capital of the whole nation is concentrated and employed according to a single plan.

Already the absorption of deposits and encouragement of savings have resulted in the stabilization of prices and the heightening of confidence in the people's currency. At the end of March, deposits in the various public, joint public and private, and private banks totaled more than 1,100,000,000 yuan. This is 2.58 times what they were at the end of 1949. If all banks, under the leadership of the national bank, will improve their systems and raise their efficiency, deposits will continue to increase.

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- 5 -

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